

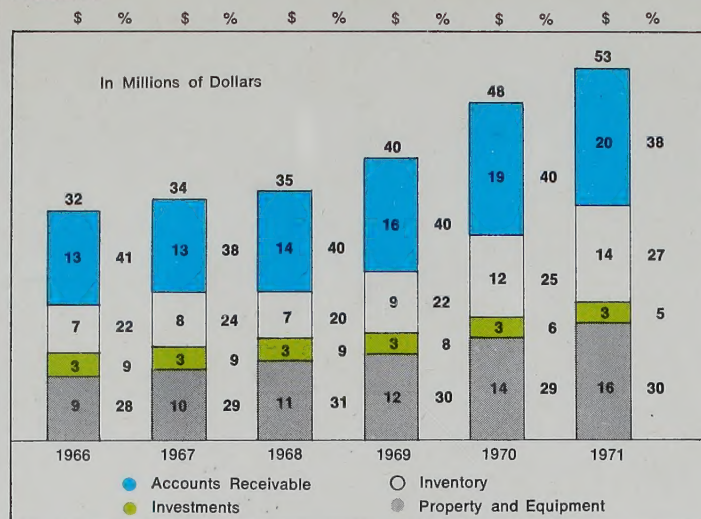
UNITED
CO-OPERATIVES
OF
ONTARIO

ANNUAL
REPORT
1971

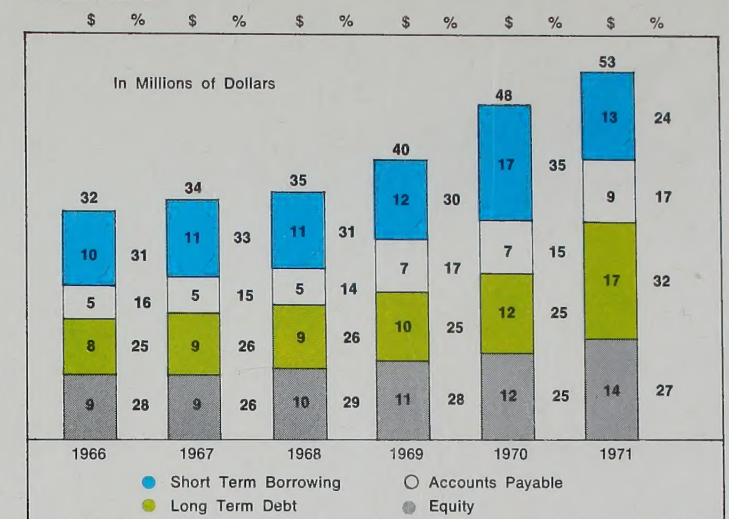


UCO GROWTH

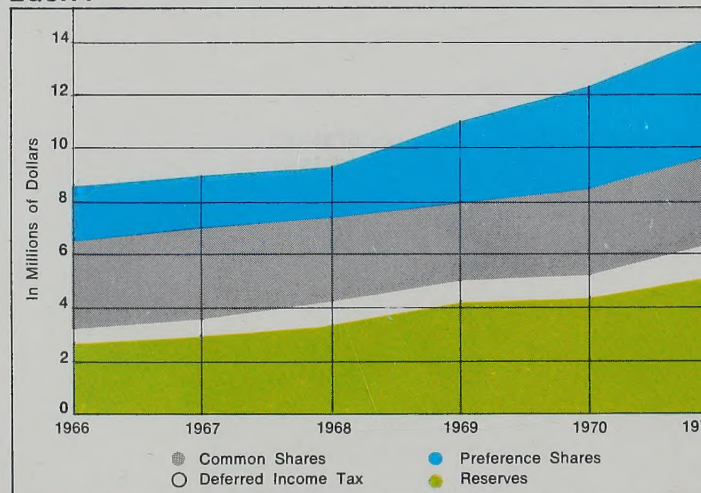
ASSETS



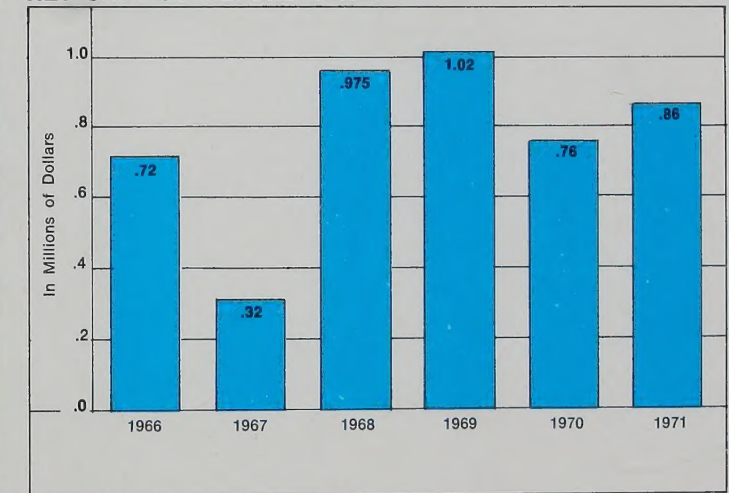
LIABILITIES



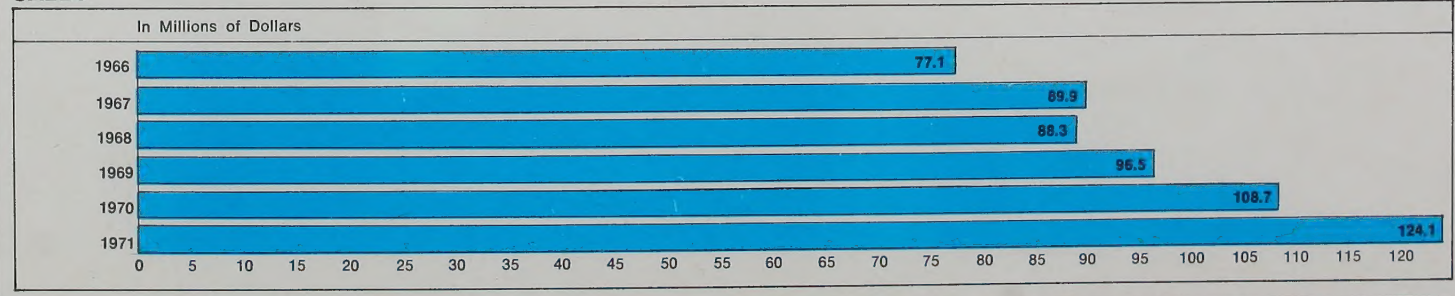
EQUITY



NET SAVINGS BEFORE TAXES



SALES





BRUCE McCUTCHEON
President

DIRECTORS' REPORT

This is the 24th Annual Report that a UCO Board of Directors has brought to the member-owners. We are pleased to review some of the Board activities of the past year and report on some significant events.

As you will see in the management reports we had significant dollar increases in sales and assets and liabilities. Some of this due to increased unit sales, some due to the six mergers during the year. Belgrave Co-operative Association and Klondyke Gardens Co-operative Limited merged early in the year, Cornwall District Co-operative and Chesterville District Co-operative in June, and Claremont Co-operative and Kenway Co-operative at year end.

In November your Board was confronted with the resignation of our general manager to be effective at a time to be arranged within the next year. This was accepted with regret.

As of the end of September, Leonard Harman took early retirement. The Board wishes to express to Mr. Harman their gratitude for his guidance over the last 11 years as general manager and his services to the Co-operative for over 30 years.

Your Board appointed Julian Smith as general manager to succeed Mr. Harman. Since coming to UCO 16 years ago from Southern States Co-operative, Mr. Smith has held a number of senior management positions with UCO.

Your directors continued their plan to visit different regions of Ontario during the year. In May we visited Hamilton Harbour to see the new facilities for handling phosphate brought in by boat by CF Industries for UCO — "a first." On two other occasions last year, the UCO Board held its regular monthly meeting away from Toronto office. In July, we toured co-operatively-owned facilities in Central Ontario, and held the Board meeting in the CIAG building in Peterborough. In September, we visited co-operatives and UCO branches west of London. While in the London area, we were at the opening of the new regional UCO feed plant and retail store at Glencoe, and held the Board meeting in the London CIAG offices.

The new Glencoe facility is a complete feed processing plant including a pellet mill and small custom mixing mill designed to serve UCO branches, local co-operatives and large patrons in Southwestern Ontario.

In the late summer, the final signatures were placed on the legal papers effecting the sale of our Oak Street offices and small warehouse, and the purchase of a new office building which is now under construction in the new Mississauga Town Centre. It will be 9 stories high with 90,000 square feet — large enough to serve our needs for some years to come.

Earlier in the year, the 17 Twin Pines Apartments for senior citizens that were built by UCO and sold to the Ontario Housing Corporation, were transferred over to the new owner.

MEMBER AND BOARD TOURS

Tours have always formed an important information service to members, patrons, directors, councillors and staff. Your Board again sponsored the Hugh Bailey Memorial Tour, conducted by Fenton Cryderman in February with 14 people participating. These people spent a week studying co-operatives in Ontario and the services they provide. In March, UCO initiated and conducted a beef feedlot study tour to the U.S. Midwest. Gordon Jack, director-at-large, and Mrs. Jack led a group of co-operators to Switzerland, West Germany and Holland in August.

OTHER ACTIVITIES

Although UCO does not own an interest in Farm and Country, we are still given the privilege of seating a representative from your directors on the Board of the publication. UCO directors also have representation in the OFA and CIAG, the Co-operative Union of Canada, United Dairy Producers Co-operative, Rural Learning Association and others. Fenton Cryderman represented your Board in the Co-operative Union of Canada's Congress planning group. The Congress was held in Kitchener this year. UCO, along with CIAG and the Province of Ontario, were hosts.

Pending legislation occupied time by Board and management representatives last year. The proposed income tax act changes created special challenges to co-operatives. UCO called a conference in August in Toronto for all Ontario co-operatives associated with UCO to help create a better understanding of what the effects of the proposed tax law would be on co-operatives. UCO also sought and received support from local co-operatives for changes, which were accepted at second reading of the Bill.

We are also represented on the Select Committee on Corporate Law, which met several times last year.

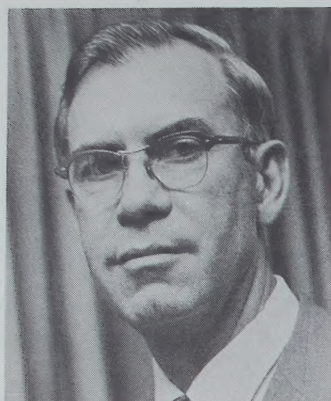
MEMBERSHIP STRUCTURE

A committee to deal with the function of the Councils was formed early in the year, consisting of UCO staff members and one Board representative — Cliff Allen. This committee met in April, September and October, and as instructed by the UCO Leaders' Conference took a long look at the whole structure of representation. It is the great desire of your Board that the members of the co-operative movement of Ontario be as fairly and well represented as possible. The committee tabled its report, and your Board is now developing proposals for a new control structure for UCO to take to directors and councillors next year.

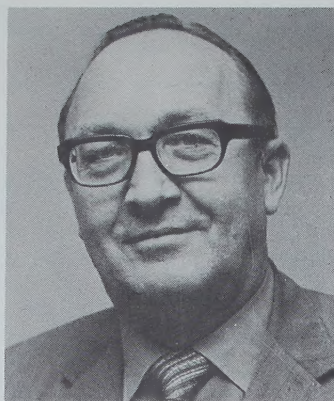
UCO held its largest youth camp yet at Geneva Park with 46 young people, including 5 from the Maritimes participating in a week-long program. The young people dealt with co-operative and human relations topics.

Your Board is ever mindful of the very important link in this co-operative chain that the local councils and boards of directors form. All of us appreciate your efforts. To the staff of UCO and local co-operatives whom we feel are dedicated to the CO-OP principles, we say thank you.

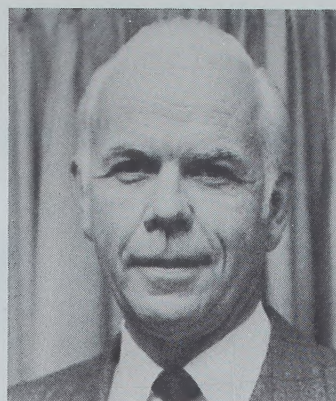
We firmly believe that UCO, a 100% Canadian-owned organization, controlled and supported by you, its members, can grow to supply your needs even better in the future.



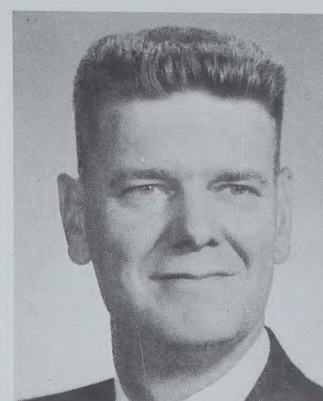
JULIAN L. SMITH
General Manager



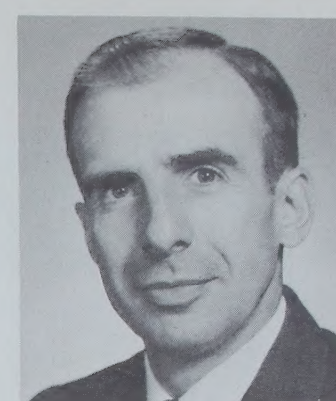
EDWIN E. CHORNEY
Treasurer
Manager, Finance Division



ROBERT J. WRIGHT
Secretary
Manager, Corporate Services
Division



DONALD M. MOFFATT
Manager
Retail Services Division



RUSSELL E. DUCKWORTH
Manager,
Farm Services Division

MANAGEMENT REPORT

This past year completes a major section in the history of UCO, a section "written" by Leonard Harman who served as your general manager from 1960 through 1971. I am just the reporter, but I am proud to have served under his direction and to have been one of the many characters in this part of the UCO story. I must tell a bit of it as a prologue to the final 1970-1 chapter of his section of the book in which Mr. Harman played a role for 31 years.

Under the drive and leadership of his 11 years as general manager, great progress and changes were made in the Ontario co-operative program. He encouraged the development of programs, services and products for members that were not "just as good as" but the best in the industry. In the area of live-stock feeds he took UCO into the CO-OP Research Farm program, the largest and best of its kind in the world, to provide the source of the best nutritional information possible. In addition to this he saw to it that your co-operative employs one of the top feed nutritionists in Canada. He continued to encourage the modification of feed manufacturing facilities to permit the manufacturing of quality feeds at the lowest manufacturing cost possible.

Under this program the volume of CO-OP feeds grew steadily until the central feed plant at Guelph, opened just prior to the time that he became assistant general manager, was running beyond its rated capacity. Therefore, in the month just prior to his retirement, he participated in the dedication of UCO's newest, modern, efficient feed mill at Glencoe, built to serve the growing demand in Southwestern Ontario and to put the manufacturing serving that area closer to the sources of raw materials such as feed grains and protein meals.

He continued to expand fertilizer services as required by members in spite of an era when it was extremely unprofitable and competitive firms were going out of the fertilizer business or into bankruptcy. With the introduction of bulk fertilizer warehouses at retail points, the addition of bulk fertilizer blenders at many points, and a substantial investment in custom spreading equipment, he

moved the co-operative fertilizer program into first place in growth and competing closely for the first place in volume in Ontario. This action was made possible by the bold move of buying an interest in CF Industries in Chicago, a co-operative owned by the 20 major fertilizer distributing co-operatives in North America. Through this avenue Ontario co-operative members share ownership in one of the largest phosphate manufacturing complexes in the world, located in Florida, ownership in major nitrogen manufacturing facilities, and a share of ownership in a potash mine in Saskatchewan. The refund from this co-operative was quite substantial this past year.

He worked hard to help local co-operatives and co-operative members to see the value of being in the petroleum business. With the continued growth of the CO-OP petroleum program and the merger now in process of one of the last two major Canadian owned petroleum companies, your Co-operative, after Federated Co-operatives in Western Canada, is probably the third largest Canadian-owned petroleum distributor in the whole of Canada.

At the time Mr. Harman became general manager, the average co-operative store was a pretty limited facility without the appearance or arrangement to compete with modern merchandising facilities of competitors. He recognized this and embarked on an aggressive program which built a co-ordinated complex of attractive farm supply stores, of which members could be proud and which were better equipped to provide them with their farm supply and hardware requirements. As a result of this aggressive action, your Co-operative, as best as we can determine, has become one of Canada's largest distributors of agricultural twines, fencing and atrazine, and a major supplier of the majority of hardware and farm supply items.

Under Mr. Harman's leadership the function of marketing of several basic agricultural products expanded tremendously. In 1960 poultry marketing was started with the purchase of a poultry processing plant at Petersburg, near Kitchener. Today the Co-operative operates one of the largest and most modern poultry processing plants in Canada.

During this same period the grain marketing services of the Co-operative has expanded greatly. Retail co-operatives were encouraged to develop and expand their facilities to handle grain. The marketing services of UCO expanded rapidly to help find markets for this grain, with the result that the volume this past year will be four times as great as when he became general manager. Your Co-operative also served its members and other grain producers through providing the business services for the Ontario Wheat Producers Marketing Board as its agent.

Livestock marketing activity which operates on the Toronto Stockyards has expanded its services with a feeder cattle auction during the fall, which has expanded the number of head of all classes of livestock handled annually by 33% since 1960.

To build strength, co-ordination and to provide the required financial resources, Mr. Harman led Ontario co-operatives into a merger program in 1965. Since that date, one co-operative has merged every 35 days on the average, with 65 co-operatives having merged by the end of this past fiscal year.

The 1970-1 year, which we are reporting on here, is the final chapter of a distinguished co-operative leadership career in UCO. Sales volume exceeded last year by \$15,000,000, reaching \$124,097,000, more than three times what it was in 1960. This was an increase of 14% over 1970 and an all-time record for the Co-operative. These sales were augmented by the mergers mentioned in the directors' report which added Belgrave, Chesterville, Finch, Avonmore, Cornwall, Claremont and Grand Bend as UCO retail points. All of these were included in UCO's operations for part of the year. (Kenway, which merged as of September 25, is included in the year end balance sheet.) Excluding the volume of co-operatives brought in by merger this year, the sales volume increase was 12.4%.

Earnings were under expectations but were up 13% over the previous year, giving a net of \$860,000. In addition to the net earnings from operations, we had a net gain on the sale of the head office building of \$374,000.

Earnings in livestock feeds were severely curtailed because of major losses to the Co-operative on feed contracts because of the low hog and egg prices. However, this contract service meant salvation to many members who were on contracts by giving them some income rather than suffering substantial losses that many growers without contracts sustained. Dairy feeds, beef feeds, and turkey feeds continued to show an increase in sales, while other classes of feeds showed a decline as production and contract programs were curtailed, resulting in a little less than a 1% decrease in sales on a wholesale basis.

With the continued increase in grain production in Ontario, the purchase of western grains declined. However, in spite of levelling off of wholesale sales of formulated feed concentrates and supplements, it was a record year in the sale of feed protein meals and mill feeds. Also in the feed department, the animal health products sales reached a record total with an 8% increase.

Fertilizer sales were at an all-time record in spite of heavy competition from imported fertilizers. Earnings in this area were the best in several years. Co-operative loyalty tied to good service by having quality fertilizer available when and where it was wanted by members, and assisted by a large number of pieces of custom spreading equipment, enabled your Co-operative to meet record demands. This has required purchase or lease by UCO and member co-operatives of over 900 pieces of custom equipment valued at over \$1,750,000. This equipment is supplemented by 62 bulk fertilizer warehouses that farmers own co-operatively through UCO and their local co-operatives. Forty-three of these become miniature fertilizer plants because bulk blenders have been added to them. In addition to all this there are 52 aqua ammonia installations. All this is backed up by the five central fertilizer plants, warehouses supplied by the seaway at the ports of Hamilton and Prescott, and the CF Industries complex

mentioned earlier. With this total complex, Ontario co-operators own the major fertilizer distribution system in Canada.

This kind of a system has not been provided by competitors in Ontario because their first objective is to make money, and this certainly has not been the way to do it. This system is owned by Ontario co-operators because their objective has been to provide the best possible service of high quality fertilizers, and this is how they have done it.

Seeds on a wholesale basis showed a small increase in sales in total. There was a substantial decrease in sales of seed grains, but there was a good increase in sales of small seeds.

CO-OP hybrid corn, until recently the only Canadian bred hybrid corn, continued to gain acceptance and showed a good increase in sales. UCO hybrids have gained such a high reputation that they are also distributed by co-operatives in Quebec, Maritimes and New York State.

There was a small decline in the sales of agricultural chemicals, due principally to a decline in sale of herbicides.

Petroleum operations continued relatively good, with an increase in sales in all major categories except with a slight decline in the sale of grease. The largest percentage increase was in propane reflecting the results of an aggressive sales program which more than compensated for the loss of a large industrial account the previous year.

The hardware-farm supplies area continued with a modest growth for the year. Interestingly, the largest increase in sales came in fencing, recreational equipment, plumbing and heating supplies, and work clothing.

The central grain marketing department increased its sales 47% in bushels over the previous year, making it an all-time record, thanks to a large Ontario grain crop plus co-operative loyalty. In addition to this the grain marketing department handled over 9,000,000 bushels of grain purchased and sold for the Ontario Wheat Producers Marketing Board. To move all this volume the department chartered 20 ships plus hundreds of railroad cars and trucks.

The livestock department sales showed an increase of 6,700 head sold and continued to increase its share of the livestock sold co-operatively on the Toronto Stockyards by selling 34.7%. In spite of rising wages and other expense items, there was a good increase in efficiency with the result that the operating cost per head was reduced.

The poultry department which operates the processing plant, hatchery and sells broiler and turkey feeds had a record year in sales volume. Unfortunately, the low grosses in poultry processing produced losses which exceed the earnings in the hatchery and feed sales of the department.

There was an active program in trying to develop grocery co-operatives operating by the direct-charge method. This met with very limited success and contributed to a loss in grocery operations. Special emphasis was put on improving results in the 12 conventional type UCO groceries, with some good progress being made in improving their appearance, service and results.

There was an increase in total sales by the retail branches, including grain marketing of \$9,861,000. Excluding the volume added by mergers, this increase was slightly over \$5,000,000, with \$2,500,000 of this increase being in grain marketing and the balance in supply sales. Operating results of retail branches showed considerable variation. Those which added new facilities did not generate immediately enough extra income to fully carry the added carrying cost of these additions although added services were provided to members. The overall result was that there was only a small contribution from the combined retail operations after assessing contract losses on a corporate basis because of the interrelationship with the central manufacturing function.

At the fiscal year end there were 102 retail branches scattered throughout the province. In addition to these, UCO managed the operations of 23 retail units of 16 local co-operatives. Together with the locally-managed member co-operatives, UCO serves 198 retail units across Ontario.

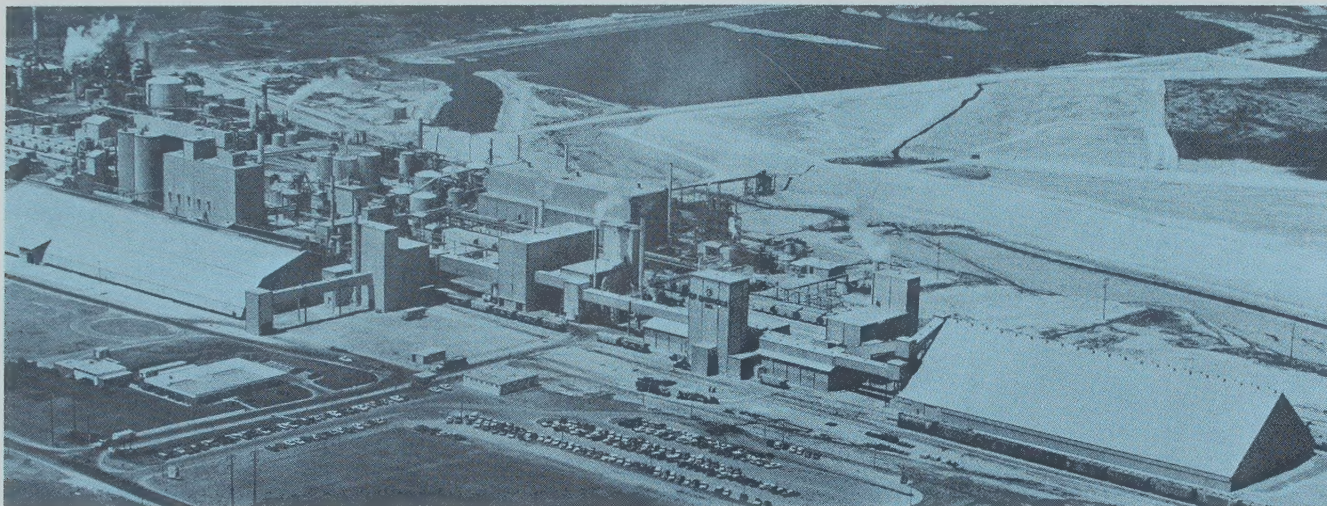
With the individual membership in UCO through the retail branches, there are now 35,000 members in addition to the 65 member co-operatives.

As with other businesses and some farmers, the problems of pollution control required special attention and significant expenditures. Your Co-operative has been accused of emitting dust and noise from grain dryers and feed mills and of having an unsatisfactory level of purity of the water emitted from the poultry plant after it has been through the present treatment system. It was also blamed

for feeding hogs that disturbed neighbors with objectionable odors. In the next five years, it is very likely to take at least \$1,000,000 of members' money to modify your facilities to meet the new standards required by pollution control agencies.

Yours is a large diversified business. It must be diversified to serve your many needs. It must be large and even larger to serve the wide membership and to be a factor in the marketplace. But more than this, it must provide the value and service you demand while protecting the \$13,000,000 you, the owners, have invested in the business.

I pledge to you that your management team will strive hard to live up to your expectations to make your Co-operative all you expect it to be and to maintain the growth and expanding services that it has provided over the past 10 years.



UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

ASSETS

CURRENT

	1971	1970
Cash	\$ 50,942	\$ 32,070
Accounts receivable, less \$854,023 allowance for doubtful accounts (1970 — \$801,182)	19,801,240	18,831,163
Current portion of investments and deferred accounts receivable	240,458	278,108
Merchandise inventories, valued at the lower of cost or replacement cost	13,051,159	11,253,857
Prepaid expenses and supplies	435,554	443,493
Total current assets	33,579,353	30,838,691

DEFERRED ACCOUNTS RECEIVABLE

Deferred patronage receivable	614,125	459,882
Other deferred accounts receivable	300,842	35,842
	914,967	495,724
Less: Current portion shown under current assets	15,000	3,000

Total deferred receivables	899,967	492,724
----------------------------------	---------	---------

INVESTMENTS — at cost (Note 2)	2,312,680	2,508,618
--------------------------------------	-----------	-----------

PROPERTY AND EQUIPMENT (Note 3)	16,008,457	14,328,934
---------------------------------------	------------	------------

	\$52,800,457	\$48,168,967
--	--------------	--------------

LIABILITIES AND MEMBERS' EQUITY

CURRENT

Bank loan — secured (Note 4)	\$10,979,310	\$13,851,918
Notes payable	1,491,516	2,602,366
Accounts payable and accrued liabilities	8,216,605	6,799,457
Current portion of long term debt	941,238	295,517
Income taxes payable	155,459	14,334

Total current liabilities	21,784,128	23,563,592
---------------------------------	------------	------------

DEFERRED INCOME TAXES (Note 5)	1,009,100	896,700
--------------------------------------	-----------	---------

LONG TERM DEBT (Note 6)	16,828,782	12,234,263
-------------------------------	------------	------------

Total liabilities	39,622,010	36,694,555
-------------------------	------------	------------

MEMBERS' EQUITY (Notes 7 and 10)

Preference shares — Class "A"	1,722,624	1,785,364
Preference shares — Class "B"	2,693,248	1,994,549
Common shares	3,576,109	3,525,600
General reserve	5,186,466	4,168,899

Total members' equity	13,178,447	11,474,412
-----------------------------	------------	------------

	\$52,800,457	\$48,168,967
--	--------------	--------------

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET

At September 25, 1971

(With comparative amounts
at September 26, 1970)

Approved by the Board:
BRUCE McCUTCHEON, Director
TYSON LANGMAN, Director

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

For the 52 weeks ended
September 25, 1971
(With comparative amounts
for the 52 weeks ended
September 26, 1970)

	1971	1970
SALES	\$124,097,169	\$108,735,450
COST OF GOODS SOLD	106,727,482	93,490,192
GROSS MARGIN	17,369,687	15,245,258
COMMISSIONS — livestock	389,235	385,640
— grain marketing	48,551	44,977
	17,807,473	15,675,875
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	16,947,465	14,916,008
INCOME BEFORE INCOME TAXES	860,008	759,867
INCOME TAXES (Note 5)	345,000	387,400
NET SAVINGS for the period before payment of patronage returns	\$ 515,008	\$ 372,467

The following amounts have been included in selling, general and administrative expenses:

Investment income — deducted from expenses	\$ 216,432	\$ 218,501
Depreciation	1,768,429	1,506,136
Remuneration of directors and senior officers	197,672	193,190
Interest on debentures and long term debt	1,175,765	814,373
Interest on short term loans	1,066,843	1,364,361

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the 52 weeks ended
September 25, 1971
(With comparative amounts
for the 52 weeks ended
September 26, 1970)

Balance at beginning of period	\$ 4,168,899	\$ 4,216,224
Add: Net savings for the period	515,008	372,467
Credit arising from revaluation and collection of branch accounts receivable	230,699	187,239
Gain (loss) on disposal of fixed assets	458,972	(32,926)
	5,373,578	4,743,004
Less: Patronage returns for preceding period		428,641
Dividends on preference shares	187,112	145,464
	187,112	574,105
Balance at end of period	\$ 5,186,466	\$ 4,168,899

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the 52 weeks ended
September 25, 1971
(With comparative amounts
for the 52 weeks ended
September 26, 1970)

SOURCE OF FUNDS

	1971	1970
Funds derived from operations		
Net savings for period	\$ 515,008	\$ 372,467
Add: Depreciation — a charge to operations which did not require the outlay of funds	1,768,429	1,506,136
Deferred income taxes	112,400	227,100
	2,395,837	2,105,703
Decrease in deferred accounts receivable		328,888
Decrease in investments	195,938	110,356
Disposal of property and equipment	723,696	169,525
Debentures issued	1,670,735	1,095,768
Increase in mortgages payable	3,246,063	1,351,783
Preference shares issued	824,254	981,961
Common shares issued	132,715	515,661
Credit arising from revaluation and collection of branch accounts receivable	230,699	187,239
Gain on disposal of fixed assets	458,972	
	9,878,909	6,846,884

APPLICATION OF FUNDS

Increase in deferred accounts receivable	407,243	
Additions to property and equipment	4,171,648	3,993,648
Loss on disposal of fixed assets		32,926
Debentures redeemed	322,279	416,873
Preference shares redeemed	188,295	259,918
Common shares redeemed	82,206	293,614
Payment of dividends on preference shares	187,112	145,464
Patronage returns		428,641
	5,358,783	5,571,084
INCREASE IN WORKING CAPITAL	4,520,126	1,275,800
WORKING CAPITAL BEGINNING OF PERIOD	7,275,099	5,999,299
WORKING CAPITAL END OF PERIOD	\$11,795,225	\$ 7,275,099

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

1. PRINCIPLES OF CONSOLIDATION

The accounts of the wholly-owned subsidiary companies which are consolidated, Patrons Capital Funding Limited, Patrons Acceptance Limited and Tend-R-Flesh Limited, the latter being a non-operating subsidiary, are as at September 25, 1971.

2. INVESTMENTS

	1971	1970
Investment in non-consolidated subsidiary — shares	nil	\$ 30,000
Other investments:		
Shares in other companies	\$ 534,145	\$ 512,140
Loans to other companies	11,300	12,000
Debentures	490,000	490,060
Loans for local co-operative facilities	105,039	222,398
Properties	304,925	314,286
Mortgages	1,092,729	1,202,842
	2,538,138	2,753,726
	2,538,138	2,783,726
Less: Current portion shown under current assets	225,458	275,108
	\$ 2,312,680	\$ 2,508,618

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 25, 1971

Details of investments in mortgages are:

%	First Mortgages		Second Mortgages		Third Mortgages		Total
	1971-1974	1976-1983	1971-1975	1976-1980	1971-1975	1976-1980	
5¼	\$	\$607,493	\$	\$	\$	\$	\$ 607,493
6	5,000	31,049	8,865				44,914
7	14,516		33,788	28,949	5,700		82,953
7½						7,200	7,200
8	3,825					41,000	44,825
9		41,751	3,150	50,132	9,343	67,050	171,426
10	6,000	30,390	11,050		31,584		79,024
12			5,600	10,800	10,000	8,000	34,400
14				23,170		9,208	32,378
	\$ 29,341	\$710,683	\$ 62,453	\$113,051	\$ 56,627	\$132,458	1,104,613
Mortgage reserve							11,884
							\$ 1,092,729

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

3. PROPERTY AND EQUIPMENT

	1971	1970
Assets — at cost		
Land	\$ 1,012,482	\$ 676,336
Buildings	9,734,810	9,198,111
Machinery and equipment	11,998,427	10,478,415
Automobiles and trucks	3,803,848	3,431,504
	<u>26,549,567</u>	<u>23,784,366</u>
Accumulated Depreciation		
Buildings	2,061,678	2,084,462
Machinery and equipment	6,279,515	5,569,933
Automobiles and trucks	2,199,917	1,801,037
	<u>10,541,110</u>	<u>9,455,432</u>
Net Book Value	<u>\$16,008,457</u>	<u>\$14,328,934</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

September 25, 1971

4. BANK LOAN

The bank loan is secured by a general assignment of accounts receivable and inventories.

5. INCOME TAXES

The income taxes in respect of the year ended September 25, 1971 amounted to \$232,600. The difference of \$112,400 between this amount and the taxes charged against income results from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This difference is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is, accordingly, included in the balance sheet in the item "Deferred Income Taxes".

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

6. LONG TERM DEBT

Details of amounts outstanding are:

Debentures							Compound		Total
	5%	5½%	6%	7%	8%	9½%	6 & 7%*	8%	
1972	\$ 50,400	\$ 6,250	\$ 18,300	\$ 2,940	\$ 13,600	\$	\$	\$	\$ 91,490
1973	58,370	3,551	1,000	7,265	7,900				78,086
1974	29,750	550	290	6,515	22,300				59,405
1975	32,500	53,475	9,828	1,120	3,500				100,423
1976	47,200	20,925	135,099	14,840	25,725			1,166	244,955
1977	90,600		86,607	24,214	35,390				236,811
1978	66,100	500	18,170	767,731	118,607		90,808	19,560	1,081,476
1979							18,275*		
1979	7,500		13,000	311,219	677,516		39,666	175,278	1,242,454
1980			28,800	89,080	1,269,842	52,000	30,134	115,983	1,585,839
1981			52,933	75,900	2,941,574	164,180		356,268	3,590,855
1982		9,800	23,248	62,040	1,255,929			73,840	1,424,857
1983		1,400	12,150	30,600	308,983			34,752	387,885
1984		2,900	7,535	24,200	163,600			15,622	213,857
1985		3,100	66,334	23,500	156,743			9,686	259,363
1986			49,475	41,500	517,665			4,123	612,763
1987			6,665	1,470	106,654				114,789
1988			4,500	15,280	51,450			551	71,781
1989			1,000	3,900	89,500			551	94,951
1990					19,200			551	19,751
1991					51,500			14,462	65,962
	<u>\$382,420</u>	<u>\$102,451</u>	<u>\$534,934</u>	<u>\$1,503,314</u>	<u>\$7,837,178</u>	<u>\$216,180</u>	<u>\$178,883</u>	<u>\$822,393</u>	<u>11,577,753</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

September 25, 1971

Mortgages

4% due 1971-1976	\$ 8,500	
5% due 1974-1979	50,549	
6% due 1972-1987	732,218	
7% due 1976-1978	4,517,500	
8% due 1971-1979	246,300	
9½% due 1980	350,000	
10% due 1974	9,500	
	5,914,567	
Less: Principal repayments due within one year	696,938	5,217,629
Other Loans: 7% due 1973	7,000	
8% due 1979-1989	30,000	
	37,000	
Less: Principal repayments due within one year	3,600	33,400
TOTAL LONG TERM DEBT		<u>\$16,828,782</u>

During the year, new debentures totalling \$1,670,735 were issued and debentures totalling \$322,279 were redeemed.

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

7. SHARE CAPITAL

Preference Shares

Class "A" 5%, Class "B" 6%, cumulative, non-voting preference shares with a par value of \$10 each, redeemable at par.

Common Shares

Co-operative common shares with a par value of \$10 each, redeemable at par.

Authorized

	PREFERENCE CLASS "A"		PREFERENCE CLASS "B"		COMMON		Total Amount
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount	
Balance authorized September 26, 1970	840,943	\$8,409,430	668,650	\$6,686,500	736,797	\$7,367,970	\$22,463,900
Redeemed during the year	6,360	63,600	12,711	127,110	8,854	88,540	279,250
Balance authorized September 25, 1971	834,583	\$8,345,830	655,939	\$6,559,390	727,943	\$7,279,430	\$22,184,650

Changes during the year issued and outstanding were as follows:

ISSUED DURING THE YEAR

	Outstanding September 26, 1970		For Cash		For Net Assets Acquired From Local Co-operatives		Redeemed During The Year		Outstanding September 25, 1971	
	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount	No. Shares	Amount
Preference Shares										
Class "A" — fully paid			13	\$ 130			6,228	\$ 62,280		
— part paid			2	13			132	603		
	<u>180,489</u>	<u>\$1,785,364</u>	<u>15</u>	<u>\$ 143</u>			<u>6,360</u>	<u>\$ 62,883</u>	<u>174,144</u>	<u>\$1,722,624</u>
Class "B" — fully paid			19,360	\$193,600	62,966	\$629,660	12,384	\$123,840		
— part paid			88	422	93	429	327	1,572		
	<u>204,336</u>	<u>\$1,994,549</u>	<u>19,448</u>	<u>\$194,022</u>	<u>63,059</u>	<u>\$630,089</u>	<u>12,711</u>	<u>\$125,412</u>	<u>274,132</u>	<u>\$2,693,248</u>
Common Shares										
Fully paid			3,816	\$ 38,160	9,056	\$ 90,560	7,814	\$ 78,140		
Part paid			287	213	822	3,782	1,040	4,066		
	<u>372,853</u>	<u>\$3,525,600</u>	<u>4,103</u>	<u>\$ 38,373</u>	<u>9,878</u>	<u>\$ 94,342</u>	<u>8,854</u>	<u>\$ 82,206</u>	<u>377,980</u>	<u>\$3,576,109</u>

The net assets of local co-operatives acquired during the year were as follows:

Accounts receivable	\$ 1,049,493	
Inventories	690,424	
Fixed assets	1,177,420	
Other assets	64,310	\$ 2,981,647
Current liabilities	1,408,813	
Long term debt	104,000	1,512,813
Purchase price		<u>\$ 1,468,834</u>

The consideration for the purchase was:

Offset of amounts owing to United Co-operatives of Ontario		\$ 651,427
Debentures		107,883
Preference shares	\$660,907	
Less: Preference shares held by local co-operatives	30,818	630,089
Common shares	250,442	
Less: Common shares held by local co-operatives	156,100	94,342
		1,483,741
Less: Common shares redeemed		14,907
		<u>\$ 1,468,834</u>

UNITED CO-OPERATIVES OF ONTARIO and Subsidiary Companies

8. DIVIDENDS

In October, 1971 the Board of Directors authorized the payment of dividends on preference shares. A dividend payment of \$211,516 was made subsequent to the year end.

9. PENSION

The amount charged to operations in 1971 in respect to employees' pension plan includes payment on account of past service. These past service pension costs are being funded over a period not exceeding nineteen years. Based on the most recent independent actuarial report, the single sum liability for unfunded pension benefits is estimated to be \$445,000 at September 25, 1971.

10. COMMITMENTS AND CONTINGENCIES

	1971	1970
Common shares to be redeemed	\$ 189,750	
Uncalled balance of shares subscribed for in other companies	140,450	\$152,900
Commitments to purchase fixed assets	1,700,000	

11. ACQUISITION OF LOCAL CO-OP FACILITIES

During the year United Co-operatives of Ontario acquired the assets and assumed the liabilities of six local co-operatives. The businesses previously conducted by the local co-operatives have been carried out since the acquisition dates as branch operations of United Co-operatives of Ontario.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(continued)

September 25, 1971

AUDITORS' REPORT

To the Shareholders
United Co-operatives of Ontario

We have examined the consolidated balance sheet of United Co-operatives of Ontario, and its wholly-owned subsidiary companies, as at September 25, 1971, and the consolidated statements of operations, general reserve and source and application of funds for the 52 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records, and other supporting evidence, as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the co-operative and its wholly-owned subsidiary companies as at September 25, 1971, and the results of their operations and the source and application of their funds, for the 52 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
November 11, 1971

G. H. WARD & PARTNERS
Chartered Accountants



UNITED CO-OPERATIVES OF ONTARIO

**35 Oak Street
Weston, Ontario**

Front cover:

New regional feed mill and store
at Glencoe, Ontario.